Fiscal Note 2017 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0361		**Title:**	Provide for income tax credit for residential property taxes paid
Primary Sponsor:	Hertz, Greg		**Status:**	As Introduced

☐ Significant Local Gov Impact ☐ Needs to be included in HB 2 ☐ Technical Concerns

☐ Included in the Executive Budget ☐ Significant Long-Term Impacts ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$23,950	$199,644	$193,784	$196,916
Revenue:				
General Fund	$0	($39,019,000)	($40,569,000)	($42,202,000)
Net Impact-General Fund Balance:	($23,950)	($39,218,644)	($40,762,784)	($42,398,916)

Description of fiscal impact: HB 361 would provide an income tax credit for the statewide property tax mill levies (95 school equalization mills) on the taxpayer's primary residence. The credit would be limited to the statewide taxes on a residence with market value of $185,000. General fund revenue would initially be reduced by $39 million and the reduction would grow over time because of new construction and the phase-in of value through the six year reappraisal cycle.

FISCAL ANALYSIS

Assumptions:

1. Beginning with TY 2016, this bill would provide for a credit against individual income tax for property taxes paid on the taxpayer's primary residence for the 95 mill statewide school levies. Individual credits would be limited to the tax from 95 mills on a property with market value of $185,000, which is $230 ($185,000 x (1 – 47% homestead exemption) x 2.47% assessment ratio x 0.095). The credit would not be refundable, and taxpayers with a credit greater than their tax liability would not be allowed to carry the credit to another year. Taxpayers who claim the credit and take the itemized deduction for property taxes would be required to reduce their deduction by the amount of the credit.

2. The Census Bureau estimates that there are approximately 271,000 owner-occupied residences in Montana, and that 11,000 of the owners of these residences have incomes that are too low to pay income tax. Thus, there are 260,000 properties where the owner would be eligible for the credit.
3. Credits were calculated for all the residences in the department's property tax database. This database includes owner-occupied and rental residences. Credits were calculated for approximately 347,000 properties. The total of credits on owner-occupied dwellings was estimated by multiplying the sum of calculated credits on all properties by the ratio of the number of credit-eligible properties to the total number of residential properties. Potential credit claims were estimated to be $48.846 million.
4. The income tax forecasting model was modified to calculate a credit based on the itemized deduction for property taxes for every return that took the deduction. The itemized deduction was then reduced by the amount of the credit. This increased the forecast of tax liability by $2.222 million for TY 2016, by $2.257 million for TY 2017, and by $2.285 million for TY 2018.
5. For taxpayers whose tax liability after other credits was less than the amount of the calculated credit, the reduction in tax liability is limited to the amount of tax liability after other credits. This limitation was applied to tax returns with an itemized deduction for property taxes, and the sum of reductions in tax liability was approximately 84.4% of the sum of calculated credits. The same ratio is assumed to apply to homeowners who take the standard deduction. After this limitation, credits would reduce income tax revenue for TY 2016 by $41.241 million (84.4% x $48.846 million).
6. HJR 2, as extended by OBPP for FY 18 and FY 19, predicts that the taxable value of residential property will grow by 3.84% from 2016 to 2017, and by 7.87% from 2016 to 2018. This growth is due to a combination of the phase-in of values from the latest re-appraisal and new construction. Applying these growth rates to the estimated revenue reduction for 2016 gives revenue reductions of $42.826 million for 2017 and $44.487 million for 2018.
7. Credits for each tax year will be claimed on tax returns filed the following spring. The effect of smaller property tax deductions will show up at the same time. Thus, the net effect on 2016 tax liability will result in lower revenue in FY 2017. The change in 2017 tax liability will result in lower FY 2018 revenue, and the 2018 liability change will reduce FY 2019 revenue. The following table shows the net changes in fiscal year revenue, in millions of dollars:

Net General Fund Revenue Effects of HB 361 as Introduced
($ million)

	FY 2017	FY 2018	FY 2019
Property Tax Credits	($41.24)	($42.83)	($44.49)
Lower Property Tax Deductions	$2.22	$2.26	$2.29
Net Effect	($39.02)	($40.57)	($42.20)

8. One-time costs to create a new credit form and modify the department's data processing systems would be $23,950 in FY 2016.
9. Based on error rates on forms for previous property tax credits, the department expects to have to correct 25,000 to 30,000 returns each year. To handle this workload and other compliance work associated with this credit, the department would need to hire 3.00 FTE auditors in FY 2017. Personal services costs would be $170,595 in FY 2017, $173,369 in FY 2018, and $176,195 in FY 2019. Ongoing operating costs would be $19,155 in FY 2017, $20,415 in FY 2018, and $20,721 in FY 2019. One-time costs to set up three new employees would be $9,894 in FY 2017.

Fiscal Impact:	**FY 2016 Difference**	**FY 2017 Difference**	**FY 2018 Difference**	**FY 2019 Difference**
FTE	0.00	3.00	3.00	3.00
Expenditures:				
Personal Services	$0	$170,595	$173,369	$176,195
Operating Expenses	$23,950	$19,155	$20,415	$20,721
Equipment	$0	$9,894	$0	$0
TOTAL Expenditures	$23,950	$199,644	$193,784	$196,916
Funding of Expenditures:				
General Fund (01)	$23,950	$199,644	$193,784	$196,916
TOTAL Funding of Exp.	$23,950	$199,644	$193,784	$196,916
Revenues:				
General Fund (01)	$0	($39,019,000)	($40,569,000)	($42,202,000)
TOTAL Revenues	$0	($39,019,000)	($40,569,000)	($42,202,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($23,950)	($39,218,644)	($40,762,784)	($42,398,916)

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*